

1H06 results review

China F & B

Tingyi (322 HK, HK\$4.68)

BUY (unchanged)

Target price: HK\$5.3 (+13.5%)

Results summary:

- 1H FY12/06 turnover increased 31.3% YoY to US\$1,111.3m. Net profit came in at US\$66.5m, up 18.1%, which was slightly below the market consensus of US\$67.5m. (FY12/06 consensus net profit of US\$150m). The key driver of top-line growth mainly came from the 65.92% increase in beverage sales to US\$552m in 1H06.
- For the first time, contribution from the beverage segment was higher than that of instant noodles. Beverage accounted for 50% of the group's turnover compared with only 43% in 1Q06. Instant noodles accounted for 42% of the total turnover while bakery segment generated around 4% sales. EBIT grew 26.7% to US\$115.7m and pre-tax profit increased 27.96% to US\$112m.
- Overall gross margin showed an improvement from 31.56% in 1H05 to 32.93% in 1H06 because of the increase of the sales portion of high margin beverage products and the stable sales growth of high-end packet noodles and bowl noodles. In 1H06, its distribution expenses as a percentage of total sales amounted to 19.78%, up 1.88 pcp from a year ago. Raw material costs, excluding flour (dropped 13.3% from Jan 2006), palm oil, sugar and PET plastic resin, still remained at a high level in 2Q06.

Table 1: Interim results

Six months to Jun	Turnover (US\$m)	Gross profit (US\$m)	Gross margin (%)	Pre-tax profit (US\$m)	Tax rate (%)	Net profit (US\$m)	EPS Basic (US cents)
FY12/06	1111.3	366.0	32.93	112.0	8.8	66.5	1.19
FY12/05	846.7	267.2	31.56	87.5	9.2	56.3	1.01
YoY (%)	31.26	37.0		28		18.1	

Source: Company data

Table 2: Turnover breakdown

(US\$m)	1H05	% of total	1H06	% of total	% Change
Instant noodles	441	52	474	42	7.4
Beverage	333	39	552	50	65.9
Bakery	43	4	5	4	4.1
Others	30	4	41	4	36.1
Total	847	100	1,111	100	31.3

Source: Company data

Table 3: Financial summary

Year to Dec	Net profit US\$m	EPS US\$	EPS Δ %	P/E x	P/B X	EV/EBITDA x	Yield %	ROE %	ROCE %	N. Gearing %
04A	286.4	0.051	699.7	11.7	4.2	27.1	1.9	41.8	3.7	10.1
05A	123.5	0.022	(56.9)	27.1	3.8	11.7	3.9	14.8	16.8	Cash
06F	152.2	0.027	23.2	22.0	3.9	9.8	2.5	17.6	19.9	Cash
07F	190.3	0.034	25.0	17.6	3.5	7.4	3.1	21.1	23.9	Cash
08F	238.0	0.043	25.0	14.1	3.2	6.6	3.9	23.8	28.2	Cash

SBI E2-Capital is a dedicated small/mid cap investment banking/ stockbrokerage house. If you would like to access our research reports and know more about our services, please contact Raymond Jook, Head of Research, on (852) 2533 3715 or raymondjook@softbank.com.hk. Find our research on: sbi2capital.com, thomsononeanalytics.com and multex.com

Investors should assume that SBI E2-Capital is seeking or will seek investment banking or other primary businesses with the companies in this report.

Analyst certification: the views expressed in this report accurately reflects the analyst's personal views of the subject securities and that the analyst has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

Disclaimer: the information and opinions in this report were prepared by SBI E2-Capital Securities Limited. SBI E2-Capital Securities Limited does not undertake to advise you of changes in its opinion or information. SBI E2-Capital Securities Limited and others associated with it may have positions in and effect transactions in securities of companies mentioned and may also perform or seek to perform investment banking services for those companies. This memorandum is based on information available to the public. No representation is made that it is accurate or complete. This memorandum is not an offer to buy or sell the securities mentioned.

Operations highlights:

High-end noodles delivered growth. Instant noodle sales rose 7.4% to US\$474m, accounting for 42% of total group turnover (1Q06: 52%). In terms of value, Tingyi was ranked first with a 39.2% market share in China's instant noodles market, 25 pcp higher than that of the second player, Hualong. Gross profit margin for high-end noodles is estimated to be around 35% while it was only 15% for low-end instant noodles. Overall gross margin for instant noodles increased by 1.79 pcp to 25.28% because of the adjustment in product mix and effective cost control.

Table 4: Instant noodle sales by products

(US\$m)	1H05	1H06	YoY %
Bowl	198	169	17.8
High end packet	176	153	14.9
Low end packet	90	101	(11.7)
Others	10	18	(44.7)
Total	474	441	7.4

Source: Company data

Bottle water surged 140%. Beverage sales rose 65.9% to US\$552m, accounting for 50% of total group turnover, compared to 42% in 1Q06. In 1H06, bottle water sales surge around 140%, RTD Tea drinks sales increased 56% while in Juice sector sales rose 37%. In terms of value, Tingyi was ranked first with a 48.6% market share in the RTD tea segment, while it was ranked second with a 11.38% market share in the bottle water and third with a market share of 15.8% in the diluted juice drinks segment in China. Gross margin for beverage segment dropped 1.86pcp to 38.6% as sugar price and cost of lower-margin bottle water doubled.

Table 5: Beverage sales by products

(%)	1H05	1H06
Tea	65	63
Juice	22	17
Water	13	20
Total	100	100

Source: Company data

Stable growth. For the bakery segment, sales rose 4.1% to US\$44m, contributing 4% of total group turnover. In terms of value, Tingyi was ranked second with a 23.1% market share in the sandwich cracker market in China, according to AC Nielsen. Gross margin dropped 0.59 pcp to 36.7% in 1H06.

New products. In addition to the core yogurt and 100% pure juice, its refrigerated products segment launched cup coffee in eastern China and iced coffee drinks.

Valuation. We reiterate our BUY call as the valuation premium is justifiable given Master Kong's well-recognized brand, enriched product portfolio and nationwide distribution network.

Fine-tuning target price and earnings. We have slightly adjusted our profit forecast from the previous RMB158.6m to RMB 152m for FY12/06, RMB190.3m for FY12/07 and RMB238m for FY12/08 to reflect the higher than expected distribution costs. Our target price has also been fine-tuned to HK\$5.3.

Table 6: Peer comparisons

Company	Ticker	Currency	Price	Mkt Cap. (US\$m)	Hist. P/E (x)	FY05F P/E (x)	FY07 P/E (x)	ROE (%)	FY06 PEG (x)
Uni-President	1216 TT	TWD	24.3	2,491.9	39.2	19.4	16.4	4.9	4.72
Want Want	WANT SP	US\$	1.40	1,804.4	13.9	14.6	12.4	19.4	0.57
Indofood	INDF IJ	IDR	1080	11.2	72.0	15.1	13.0	2.9	0.49
Thai-President Food	TF TB	THB	400	192.6	9.3	-	-	16.8	na
Coca-Cola	KO US	US\$	43.99	103,044.2	19.5	19.1	17.6	30.2	2.31
Nissin Food	2897 JP	JPY	3930	4316.7	30.1	26.2	25.5	6.6	5.25
Kirin Brewery	2503 JP	JPY	1633	138.5	28.7	29.2	32.0	5.4	2.86
Tingyi	322 HK	HK\$	4.68	3,362.8	27.2	23.1	20.1	14.9	0.23
Average					30.0	20.0	19.6	12.6	2.3

Source: Bloomberg & SBI E2-Capital

Table 7 : Earnings model

Year to Dec (US\$m)	04A	05A	06F	07F	08F
Turnover					
Instant noodles	849.9	981.8	1109.2	1,248.5	1,392.3
Beverage	479.4	702.3	1,017.5	1,436.2	1,965.2
Bakery	83.8	92.9	108.7	123.9	141.3
Others	53.7	68.6	72.0	75.9	80.1
Total	1,466.9	1,845.6	2,307.4	2,884.5	3,578.9
YoY%	16.4	25.8	25.0	25.0	24.1
Cost of sales	(1,062.3)	(1,267.5)	(1,569.8)	(1,946.6)	(2,391.7)
Gross profit	405	578	738	938	1,187
EBITDA	126.7	285.9	343.0	416.7	510.2
Depre./amort.	(89.6)	(99.1)	(108.4)	(114.9)	(119.7)
EBIT	37.1	186.8	234.6	301.8	390.5
Net int.income / (exp.)	(13.0)	(6.4)	(6.0)	(5.8)	(4.3)
Exceptionals	273.0	-	-	-	-
Associates	(0.7)	7.5	10.7	13.1	15.0
Pre-tax profit	296.4	187.9	239.2	309.0	401.2
Tax	(8.6)	(17.4)	(25.1)	(35.5)	(51.8)
Minority interests	(1.4)	(47.0)	(61.9)	(83.1)	(111.5)
Net profit	286.4	123.5	152.2	190.3	238.0
YoY%	699.7	(56.9)	23.2	25.0	25.0

Source: company data & SBI E2-Capital